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Africa's Recovery from the Global Economic Crisis

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African economies have been shaken by the global economic downturn which followed the US-centered financial crisis of 2008. Africa's growth rate for 2009 and 2010 has recently been revised substantially downwards by international financial institutions. For instance the IMF has revised Africa's economic growth forecasts for 2009 downwards from 5 per cent in October 2008, to 3.5 per cent in January 2009, and to 1.7 per cent in April 2009. Likewise the World Bank has revised African growth prospects down to 2.4 per cent for 2009. The consequences of a reduction in growth, even if African economies may avoid shrinking, are likely to be higher unemployment and poverty, increases in infant mortality, and adverse coping with long-lasting impacts such as higher school drop-out rates, reductions in healthcare, environmental degradation, and political instability, *inter alia*.

Long-term development prospects are detrimentally affected by the volatility of growth in Africa, and the region's overall dismal growth until recently was associated with such volatility. Indeed, the standard deviation of GDP growth in Africa since the 1960s is the highest amongst developing regions as Fosu (2007) indicated in an earlier piece in the *WIDER Angle*. The experience of Africa with growth has therefore been one of upswings and downswings. In this light, the current global economic downturn follows as one of a number of adverse shocks which had been suffered, for various reasons, by African countries since independence.

In this article we discuss some of the steps which can be taken to minimize the impact on Africa and speed up recovery. Given that African countries should heed the lessons from past external crises we also argue that countries should avoid action which could introduce anti-growth 'policy syndromes' (Fosu, 2007).

Putting the Crisis in Perspective

Unlike previous crises, Africa faces this crisis with much better indicators of macro-economic resilience, such as better fiscal and trade balances, and improved governance.

Figure 1 depicts GDP growth in Africa since 1961 in relation to world average GDP growth and recessions in advanced economies.

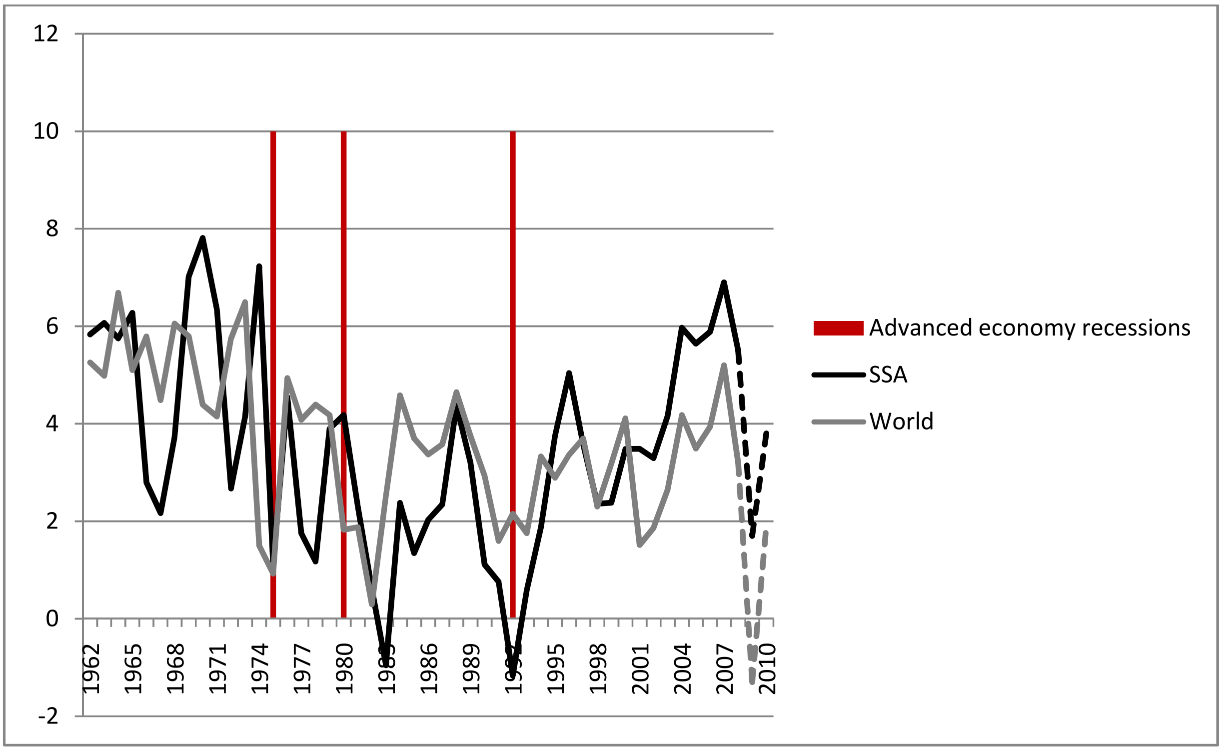

Fig 1. GDP growth in Africa, 1961 – 2007 including forecast growth for 2009 and 2010 according to the IMF

(Sources of data: World Bank's World Development Indicators Online, and IMF)

Figure 1 shows that African economic growth is dependent on world economic growth, and that declines in world growth tend to lead to declines in African growth. But what can be seen from the figure is that compared to the early 1980s and early 1990s, when African GDP growth declined faster than the world's and was even negative both times, the current forecasts are that African GDP will not contract, despite the severity of the global crisis. Of course, whether these forecasts will be borne out will have to be seen, although there is comfort in the fact that African economies are more resilient this time around than during earlier crises.

Africa's Greater Resilience

Figure 2 compares the average current account and fiscal balances for African countries, as well as foreign exchange reserves and subsequent growth (forecast in the case of 2008-09) between 2007 and 1991 and 1982 (the years before the crises peaked).

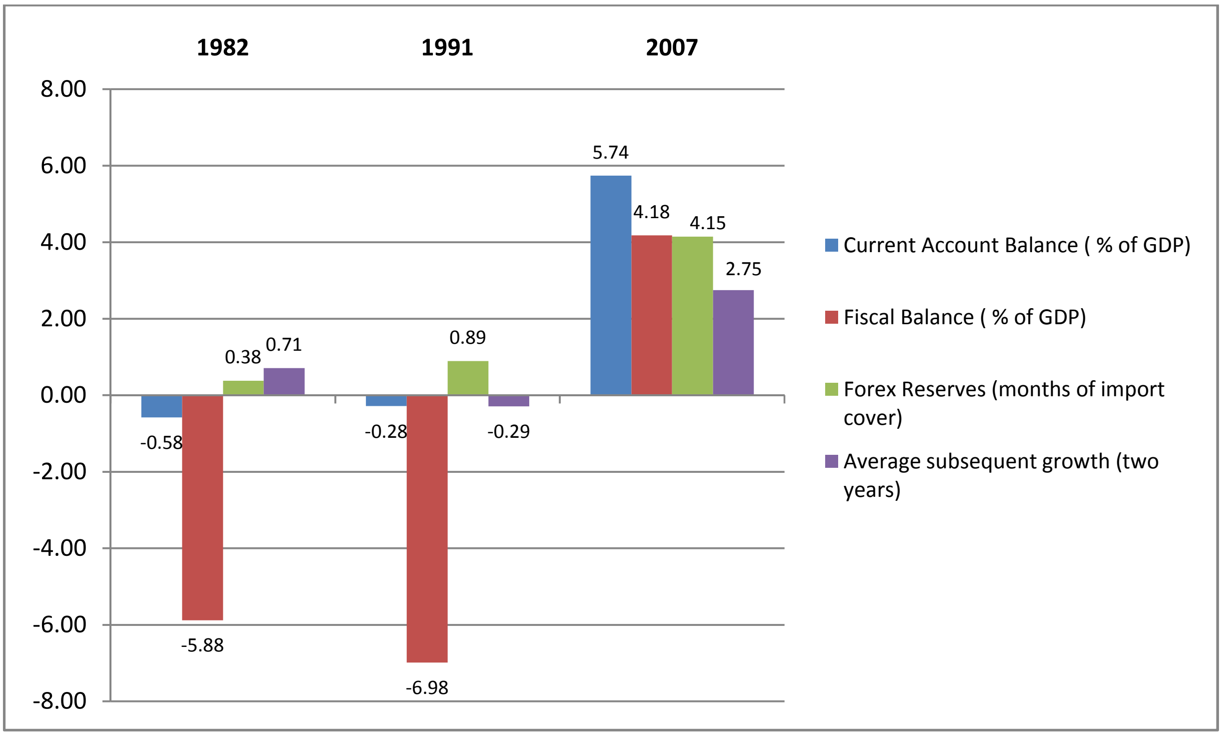

Fig.2. Comparison of Africa's macro-economic position with the situation before previous synchronised global recessions *(Source of data: International Monetary Fund)*

What is clear from the figure above is that African countries are in a much better position this time around. This is the result not only of the very good economic growth which African countries experienced on average since 2000, which had been helped along by strong commodity prices, but it is also the result of better macro-economic management. In the terminology of the African Economic Consortium's (AERCs) Growth Project (see the references contained in Fosu, 2007) there has been more 'syndrome-free' policy periods in Africa in recent years.

This greater resilience makes possible a wider range of responses towards recovery in Africa. In particular, as we show elsewhere in greater detail (see Fosu and Naudé, 2009), fine tuning the appropriate responses for Africa should take note of individual country vulnerabilities and resilience. Although Africa's general resilience is better, as Figure 2 suggests, there are still important differences between countries, which need to be accommodated in crafting policy responses. Bearing this in mind, the best framework within which such a country-level tailoring of responses and assistance can take place is one that makes a distinction between risk mitigation, risk coping and risk reduction.

Mitigation, Coping and Risk Reduction in Africa

Mitigation actions, to be undertaken by both the international community and African countries should include:

- Monitoring the impact of the crisis in timely fashion
- Restoring confidence in banks and continuing to monitor and regulate banks

- Expanding trade (including through aid for trade programmes) and avoiding falling into creeping protectionism
- Expanding trade finance

The expansion of trade is perhaps the most crucial measure needed, as much of the adverse shock to Africa is due to the decline in its exports. Expanding African countries' trade however is largely dependent on the international community. So efforts to restore growth in the advanced economies are vital. The sooner these economies can turn around, the better it will be for Africa. Moreover, it needs to be done without resorting to ('murky') protectionism, which has now been identified as a real danger to global trade. Efforts to expand trade finance, through for instance regional multilateral finance institutions such as the African Development Bank, would complement donor countries' trade-for-aid programmes and preferential trade access for African products.

The role of African governments in mitigation would be to:

- Monitor the impact of the crisis
- Monitor and regulate their own banking systems and check for early signs of bank difficulty
- Maintain a positive stance towards trade liberalization and open markets
- Lobby for the satisfactory conclusion of the Doha (development) Round
- Work towards improving their respective supply capacities, for instance through public works programmes aimed at infrastructure and transport services
- Maintain competitive real exchange rates
- Further encourage regional integration and regional trade facilitation measures.

Coping actions, largely the responsibility of individual countries but needing some assistance from donors, would include:

- Expanding domestic demand, through fiscal and monetary stimulus, where possible, in a manner that does not lead to unsustainable debt accumulation
- Absorbing financial losses through foreign reserves, where countries have the means and allowing establishment of competitive exchange rates
- Targeting the vulnerable through appropriate social safety nets supported by aid
- Expanding self-employment, through amongst others making the business environment easier and supporting public works programmes
- Utilizing technical assistance in the design and implementation of programmes
- Expanding peacekeeping operations where needed, given the potential for escalating conflict in times of economic hardship

In assisting countries to cope with the effects of the crisis, the international community needs to be more alert to country-level differences, paying particular attention to countries most at risk and ensuring tailor-made assistance. Such assistance would be twofold, namely to:

- Assist African governments with financial resources so as to alleviate poverty and to make aid as effective as possible (care should be taken that aid is appropriately utilized and that it does not divert local production)
- Provide technical assistance and if needed peacekeeping operations

African governments in turn should take care that expansionary policies do not lead to unsustainable budget deficits or debt burdens, and that private sector activity is made more attractive.

Finally, in the long run, risks facing African countries should be reduced, via, for instance, diversification of their economies, improving the environment for doing business, and reforming the global financial and aid architecture. A prerequisite is the strengthening of governance, both domestic and global. Many African countries have improved their governance through institutional reform in recent years. It is also true, though, that many nations on the continent are still lagging behind in institutional reforms. An important concern for a number of these countries is that such reforms could be fraught with potential political disorder, requiring appropriate support to these countries in order to reduce the likelihood of conflict. Conversely, we must also be cognizant of the need to preserve the achievements of those countries that have succeeded in reforming. That would require appropriate support to reduce the potential for political opportunism in these countries during the time of the crisis, which could reverse the success so far. Meanwhile, commitments to improve governance of the global architecture of resource assistance to African countries should translate into action.

Towards Syndrome-Free Recovery

A policy environment is seen as syndrome-free ('SF') if it is largely free from broad anti-growth policy syndromes, such as state controls, adverse redistribution, sub-optimal intertemporal allocation, and state breakdown. These are briefly explained in Fosu (2007). Fosu (2009) finds that the absence of such policy syndromes could have increased annual per capita GDP growth in Africa by nearly 3.0 percentage points.

The urgency to implement the short-term measures described above should avoid compromising the achievements so far of increased SF environments that might result in countries relapsing into policy syndromes. In this regard, we point to five dangers that should be avoided. We elaborate these in a companion paper which has been prepared for a Side Event on Africa at the UN Conference on Economic and Financial Crisis which takes place on 25 June 2009 in New York (see http://www.ony.unu.edu/events-forums/upcoming/2009/towards-an-action-plan-for-afr.html). These five dangers are:

1. Creating another boom-bust cycle and inflaming the historically high volatility of African growth. With greater resilience, Africa may yet avoid a recession and should be able to recover without inducing an unsustainable inflationary boom.
2. Generating another debt crisis. Africa's boom-bust cycles of the past have often been accompanied by cycles of sovereign indebtedness and led many African economies to be

caught in a debt trap in the 1980s and 1990s. Many of these countries have benefitted from the Highly-Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). The current crisis is likely, however, to put pressure on both developing country expenditure and revenue, with the likelihood of growing debt.

3. Exacerbating inequality and polarization, possibly resulting in state failure, for instance. Appropriate measures could include strengthening social safety nets, as well as public work-type expenditure such as on trade and transport infrastructure, which will not only create short-term jobs but also provide vital productive infrastructure.
4. Reversing gains made in opening up African economies and re-introducing crippling state controls such as higher tariffs, price controls, or sectoral subsidies.
5. Finally, advanced countries should avoid entrenching inequities and inefficiencies in the global financial and aid architecture. The latter is a particular risk inherent in the G20's response to the crisis and requires a more inclusive response on the level of the UN, as Naudé (2009) recently pointed out in the April 2009 *WIDER Angle*.

Conclusion

We believe that Africa can and will recover from the current crisis. In this paper we have called for a 'syndrome-free' (SF) recovery, which is a recovery that will not contain the seeds of its own destruction. We are optimistic that Africa will heed the lessons of the past, and through improved governance be able to steer clear of pitfalls. The international community should also play its role in ensuring that trade channels to Africa are kept open; that promised aid is distributed and at an accelerated pace; that irresponsible lending (which could lead to a debt crisis in a few years) is avoided; and that fiscal stimuli and bank bailouts in the West do not inadvertently entrench the *status quo* of the current unsatisfactory global financial architecture.

About the authors

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Further Reading / References

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